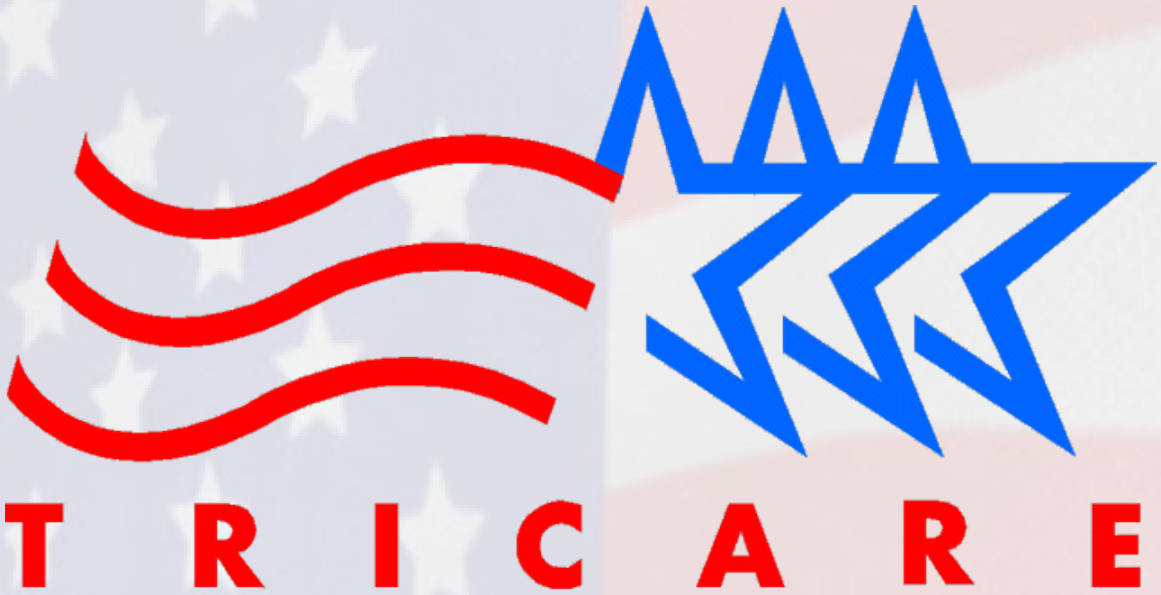


2000

“Focus on Performance”

THE EVOLUTION OF: SUPPORT CONTRACT FINANCING

2000 TRICARE CONFERENCE

TMA, Resource Management

Topical Outline

- Overview
- 1st Generation - MCS 1.0
- Revised Financing - MCS 2.0
- Revised Financing - MCS 2.5
- The Next Generation - MCS 3.0

Contract Evolution: Overview

- 1st Generation: Regions 3/4/6/7/8/9/10/11/12
- 2d Generation: Regions 1/2/5
- 3d Generation: Region 2/5 Reprocurement
- 4th Generation:
  - Region 11 Mar 02
  - Region 6 Nov 02

1st Generation: MCS 1.0

MCS 1.0 Financing: Basic Tenets

- “Wraps around” the direct care system
- Expands and contracts inversely to direct care system
- Allows for maximization of direct care system
- Rewards gov’t for recapture of CHAMPUS costs via “Risk Sharing”

MCS 1.0 Financing: Formula for Health Care Cost

PMPY x Plan Population

= DCP Cost x Trends x Plan Population

Cost = M x (OxQ) x (ExP) [**Prime**]

+ M x (OxS) x (ExR) [**Extra**]

+ M x (OxU) x (ExT) [**Standard**]

O = trend factor for MTF utilization

E = CHAMPUS-eligible, at-risk population

M = cost per eligible in data collection period (DCP)

P, R, T = proportion of eligible population using Prime, Extra, and Standard

Q, S, U = cost trends for Prime, Extra, and Standard

MCS 1.0 Financing: ~~Trend Factors (in "Q", "S", & "U")~~:

- Inflation **[supplied by government]**
- Cost sharing
- Provider discounts
- Coordination of Benefits (includes OHI)
- Utilization rates
- Utilization management
- Resource sharing/support
- Intensity/other

MCS 1.0 Financing:

MTF Utilization Index (the "O-factor")

- Translates changes in MTF utilization to changes in CHAMPUS utilization ..

- .. between DCP and Option Period (OP)

- Two versions:
  - **Outpatient Care -** based on MTF visits
  - **Inpatient Care -** based on CHAMPUS admissions

MCS 1.0 Financing: Bid Price Adjustment Overview

- Only Health Care Costs are adjusted
- Based only on:
  - Changes in government estimates
  - Risk Sharing
- Adjustments not made for contractor assumptions
- Risk Sharing derived after all other adjustments

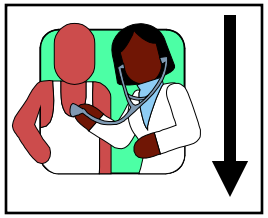
MCS 1.0 Financing:
Bid Price Adjustments (BPAs)

Changes in these Gov't estimates will result in BPAs:

- Cost-per-eligible estimates for DCP ("M")
- "O" factor estimates for each option period
- CHAMPUS-eligible population estimates for each option period ("E")

MCS 1.0 Financing:
Bid Price Adjustments (BPAs)

UM/visit reduction w/o capacity utilization:

UM →  → Excess Capacity → O-FACTOR ↑

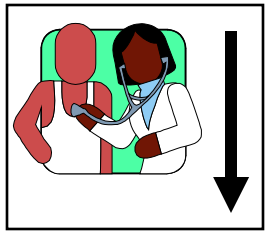
O-FACTOR ↑ → $ ↑ → MCS CONTRACT

$ ↑ → IF NO OTHER CHANGES OCCUR GOV. RECAPTURES 80% OF THIS INCREASE VIA GAIN SHARING.

MCS 1.0 Financing:
Bid Price Adjustments (BPAs)

UM/visit reduction w/capacity utilization:

UM

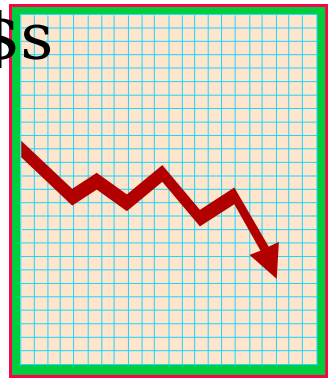


Excess Capacity

CHAMPUSRecapture

NO CHANGE TO O-FACTOR

CHAMPUS $s



80% GAIN SHARIN

MCS 1.0 Financing: Potential Bid Price Adjustments

Inflation:

- CHAMPUS Price Inflation Reimbursement Index (CPIRI): A market basket of CHAMPUS Prices

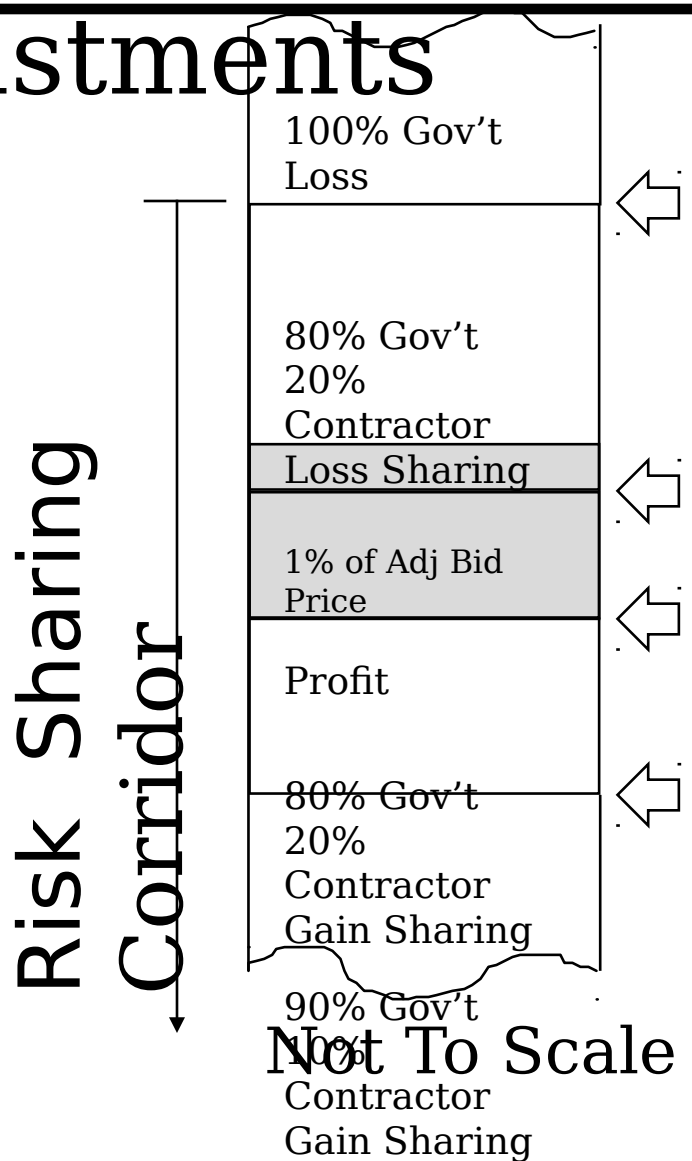
- % Change thresholds must be exceeded

MCS 1.0 Financing: Potential Bid Price Adjustments

Case Mix Index

- Adjusts health-care costs for changes in the relative intensity of MTF versus CHAMPUS inpatient care
- Based on average “Relative Weighted Products” (RWPs) per disposition
- Change must exceed 2% for each party

MCS 1.0 Financing: Potential Bid Price Adjustments


100% Gov't Loss
80% Gov't 20% Contractor Loss Sharing
1% of Adj Bid Price
Profit
80% Gov't 20% Contractor Gain Sharing
90% Gov't 10% Contractor Gain Sharing
Risk Sharing Corridor

Actual Cost =

Equity Limit. Also Point of Total Gov't Responsibility (POTGR)

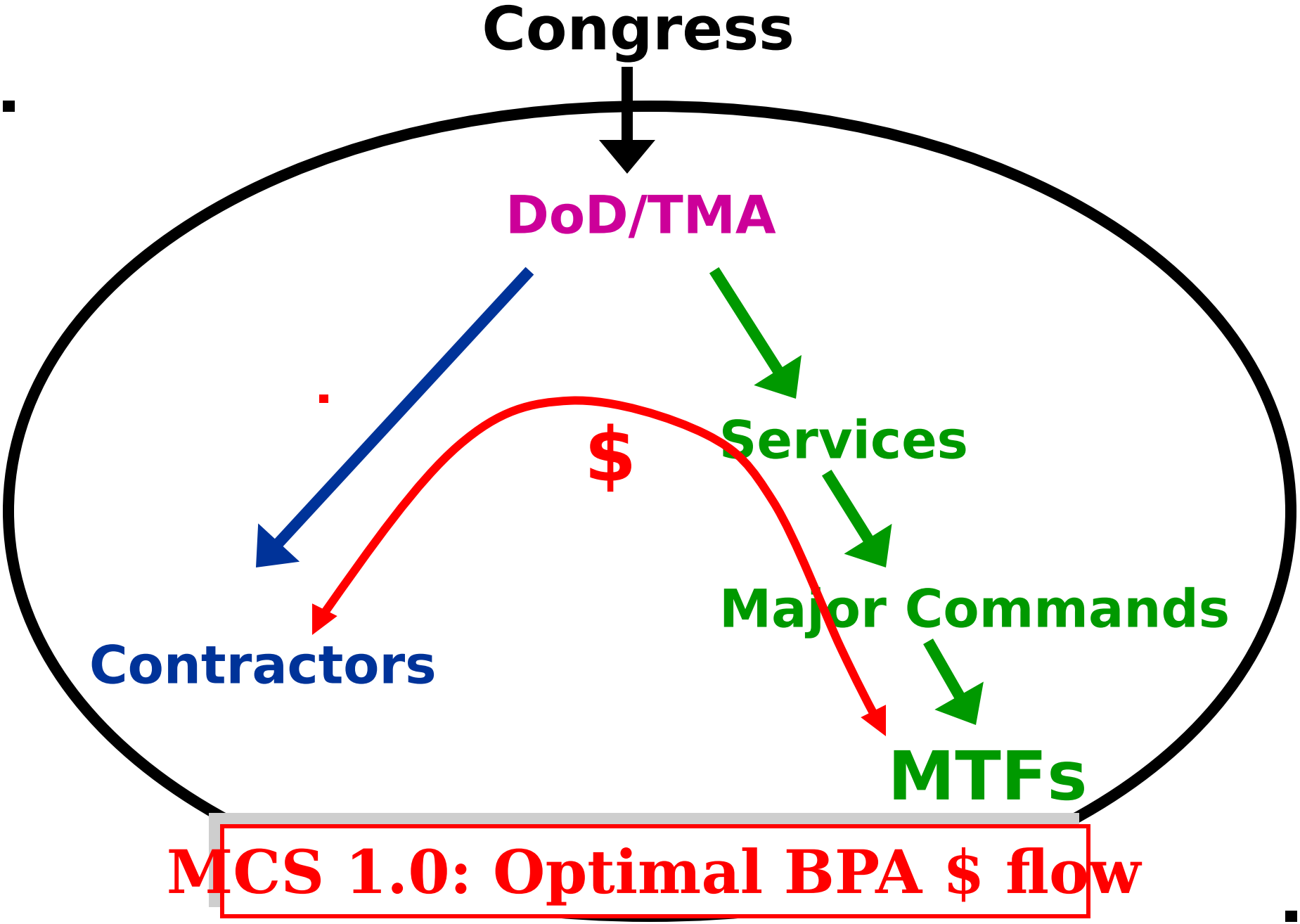
Adjusted Bid Health Care Price

Adjusted Proposed Health Care Service Cost (APHCSC)

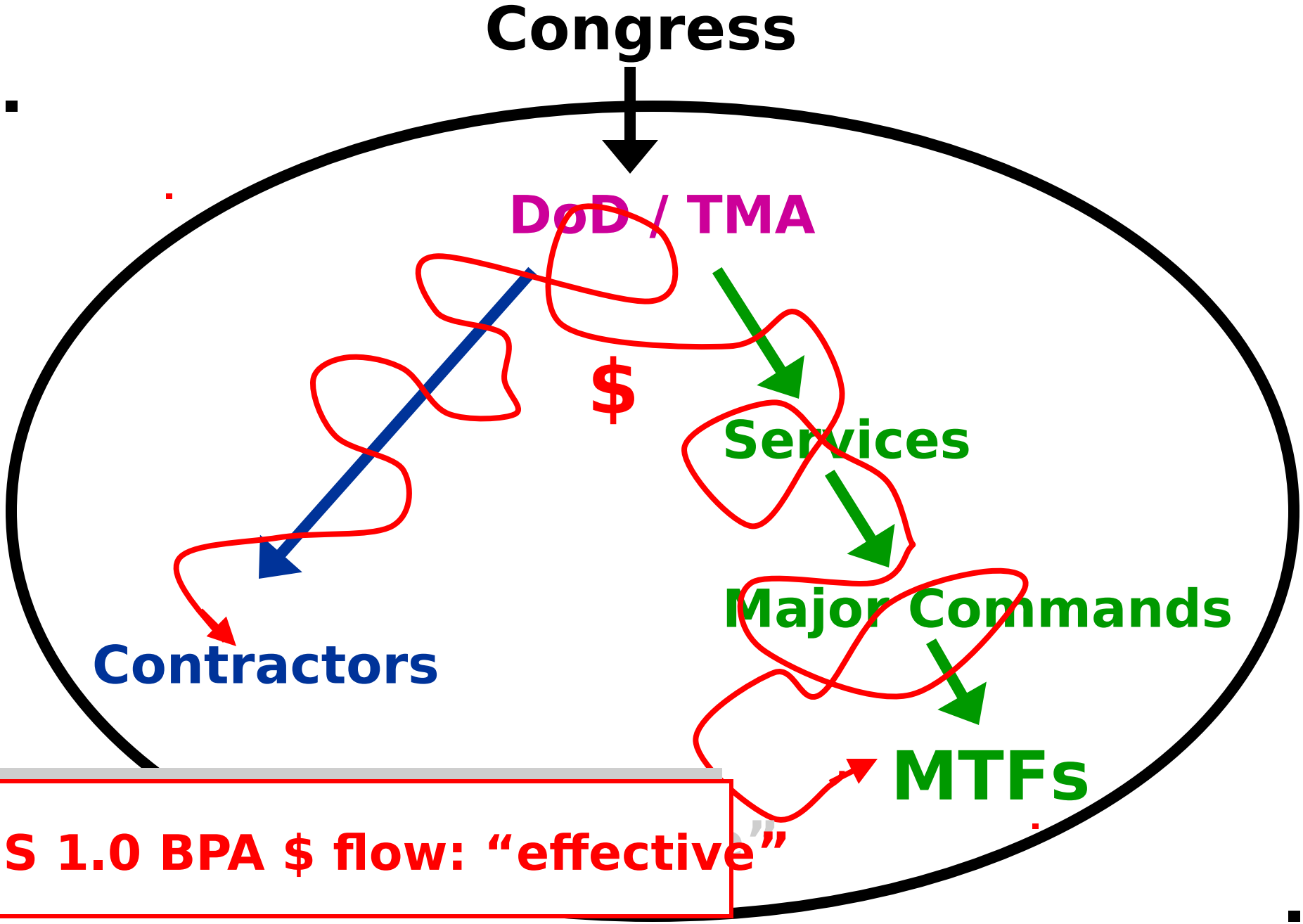
80% of APHCSC

Not To Scale

0% Gov't - 100% Contractor Risk



MCS 1.0: Optimal BPA $ flow


Congress
DoD / TMA
$
Services
Major Commands
Contractors
MTFs
CS 1.0 BPA $ flow: “effective”

Revised Financing: MCS 2.0

Key Concepts of "Revised Financing": Segregation of Risk

- MTF/Government solely at risk for MTF enrollees
- Government & MCSC share risk for non-MTF enrollees
  - » Contractor enrollees
  - » Extra
  - » Standard
- Goal: Align financial responsibility and authority

Key Concepts of "Revised Financing":

MTFs Purchase Care for Their Enrollees

- MCSC invoices MTF on monthly basis

- Same provider discounts apply

- Goal: Encourage utilization management, preventive medicine and reasoned expansion of capacity

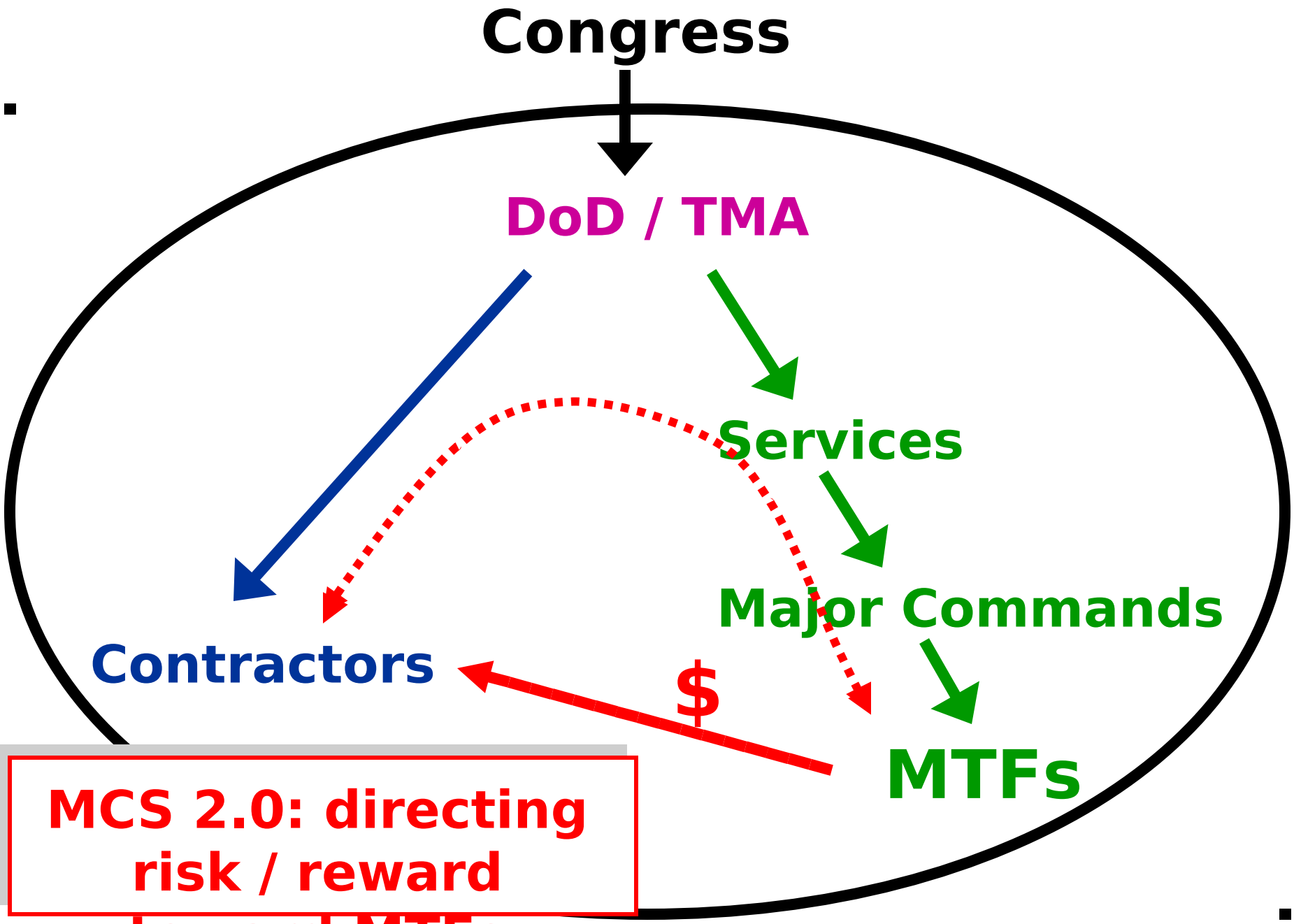
Key Concepts of "Revised Financing":

Timely Adjustments to MTF Funding

- Quarterly Bid Price Adjustments (BPAs) …

- .. vs. the previous annual BPAs

- Goal: Strengthen incentives for MTF to manage care (UM, PM, etc.) via more timely financial rewards for performance.


Congress
DoD / TMA
Services
Major Commands
MTFs
Contractors
$
MCS 2.0: directing risk / reward toward MTFs

Revised Financing: MCS 2.5

MCS 2.5: Improvements from MCS 2.0

- Modified BPA Schedule
  - Risk Sharing semi-annual vs. quarterly
- 50/50 Continuous risk sharing
- Improved Resource Sharing
  - Eliminates up front savings
  - Funds MTF marginal costs centrally w/Lead Agent approval

The Next Generation: MCS 3.0

Financial Objectives

- Place the MCS Contractor at appropriate risk
- Value: risk premiums, REAs et al
- Better align performance and financial impacts

Key Financial Features of 3.0

- Simpler, faster BPAs
- Segregation of Risk
- Cross - Fee For Service
- Market value of care in Commander's decision cycle
- **Reconciliation in monthly contract payments, cross-FFS settled quarterly with cash**

Health Care for Non-MTF-Enrollees: Basics

- MCSC and Gov't share risk (except network enrollees may be bid as guaranteed capitation)
- MCSC bids capitation rates per "equivalent life"
- Base period is prior to RFP (e.g. FY 98 or 99)
- Trend factors account for both changes between:
  - Base period and 1st OP
  - Between OPs

Health Care for Non-MTF-Enrollees:

Redetermining the Price

- = Simplified BPA
- "Price Redetermination" based only on changes in:
  - Equivalent lives
  - Inflation
  - Risk Sharing
- "Adjustments" eliminated for changes in:
  - MTF Utilization Index (i.e., the "O-Factor")
  - Case Mix
  - Cost per eligible in DCP

Health Care for Non-MTF-Enrollees:

Risk Sharing

- Only applies to care for NMEs
- Continuous risk sharing at a constant rate (to equity cap)
  - 50/50 for differences between redetermined price and actual cost
- Actual costs include:
  - Claims paid for NMEs (at-risk beneficiaries)
  - Payment offsets for MTF / NMOP care
  - Capitated payments
- Guaranteed capitation option (no risk sharing is an option for network enrollee care, in total)

Contractor's patients

MTF's patients

Non-MTF enrollees

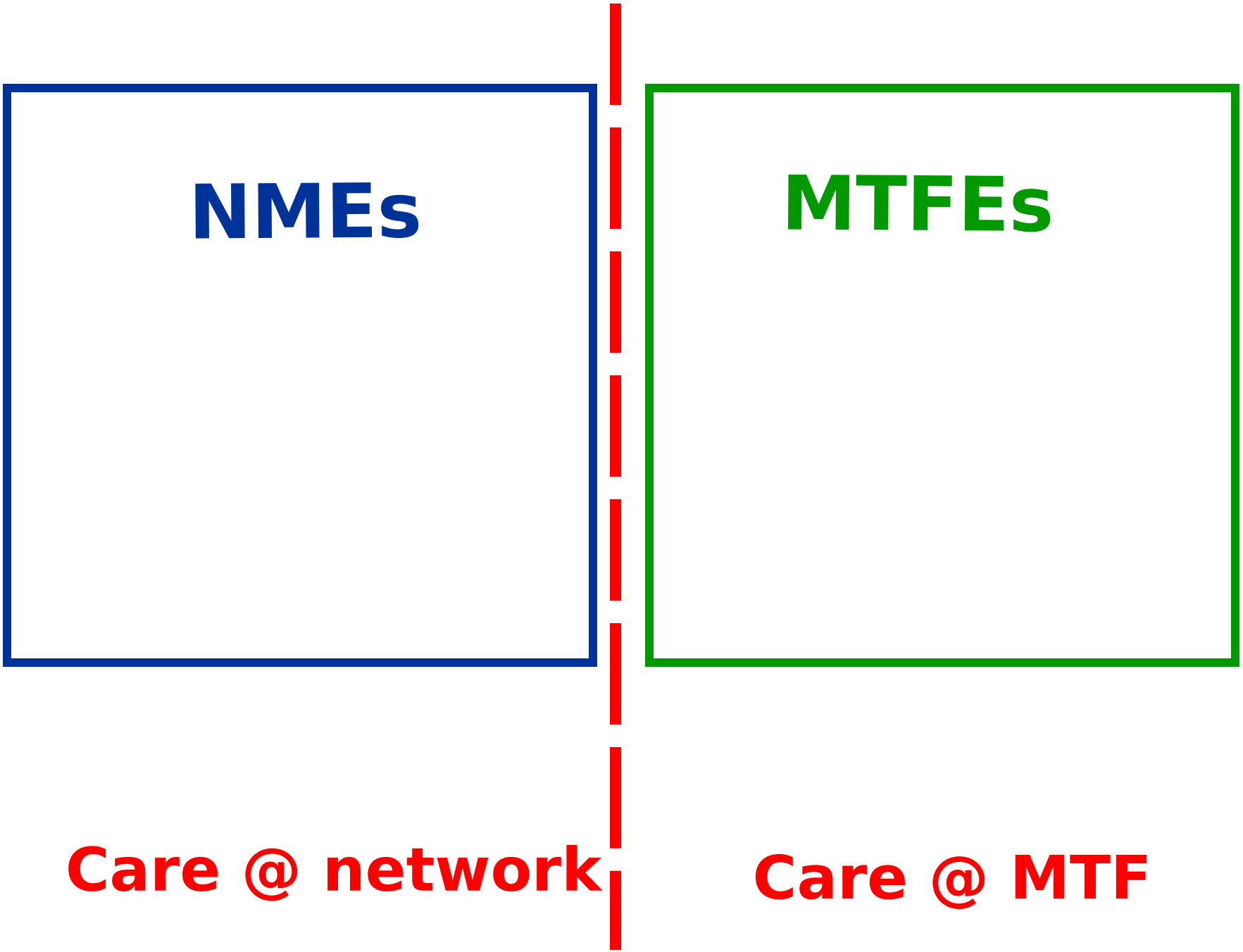
= NMEs

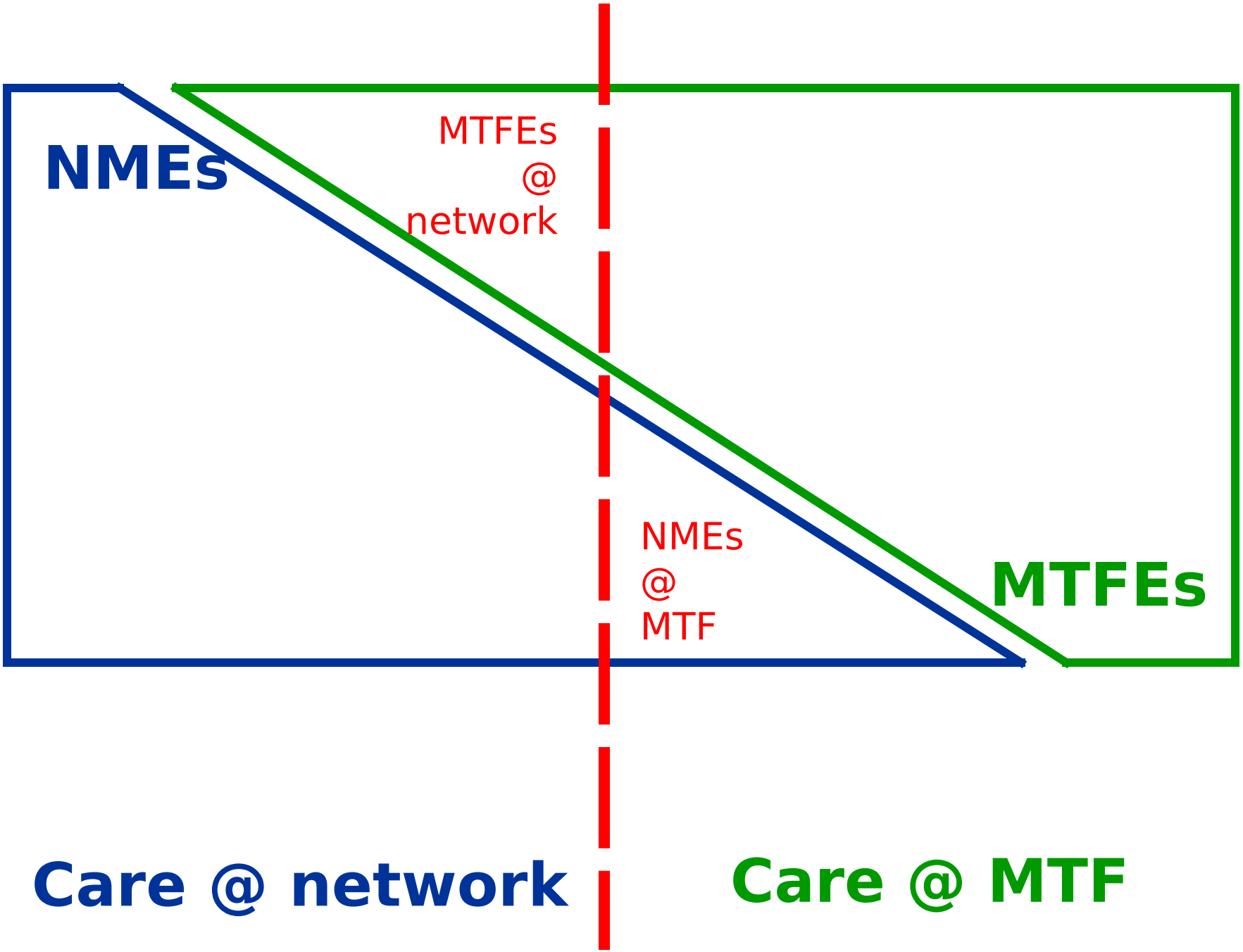
MTF Enrollees

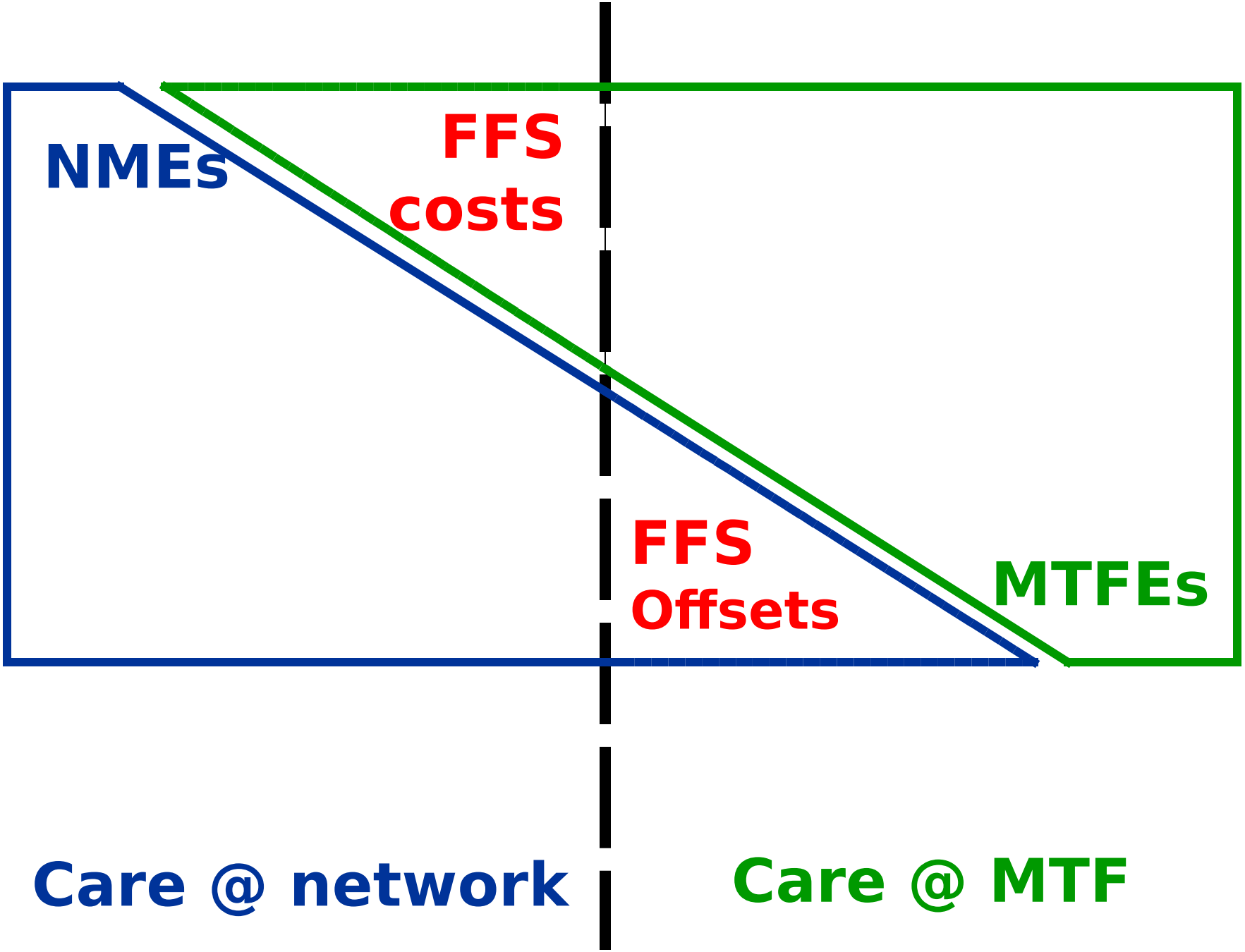
= MTFEs

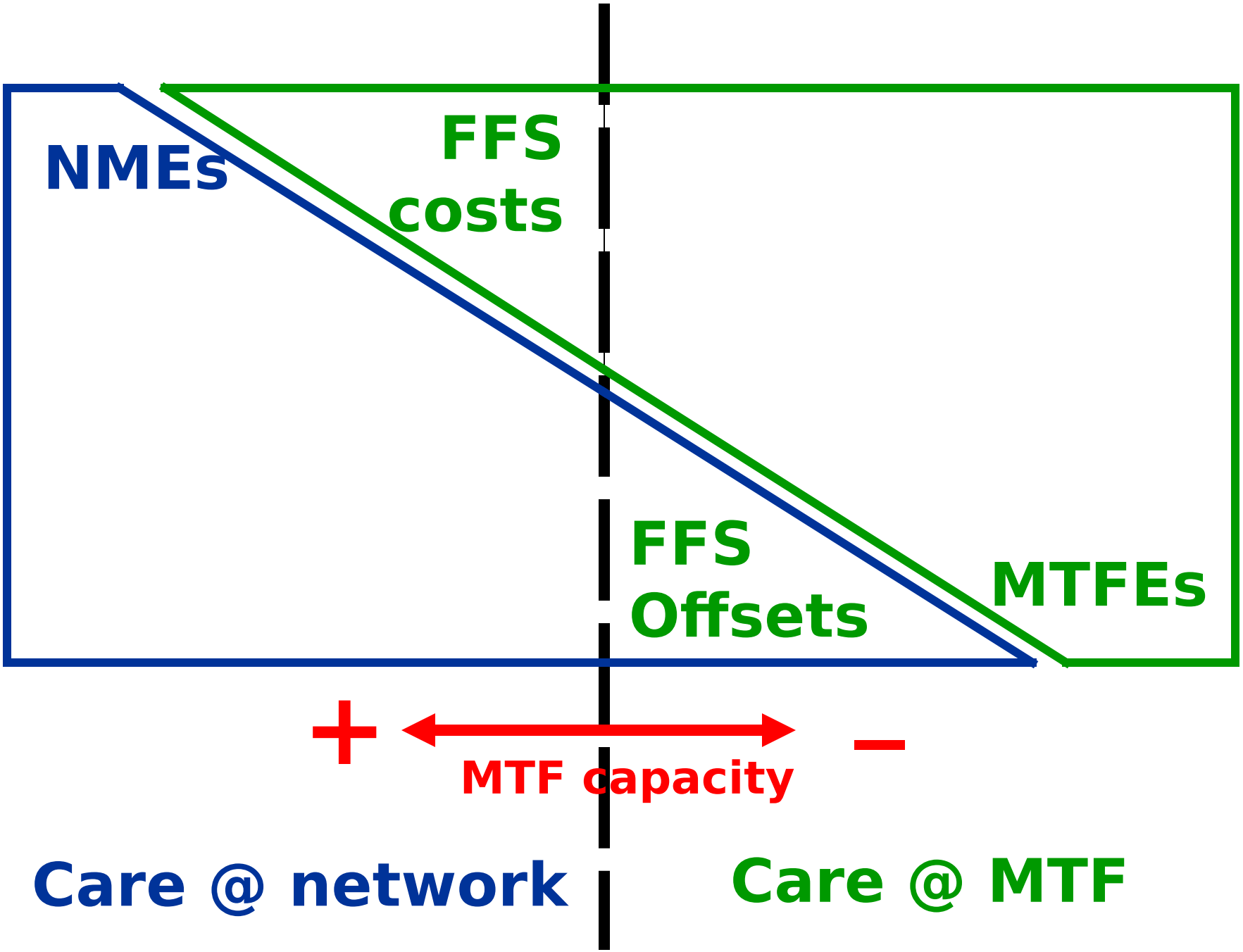
Contractor

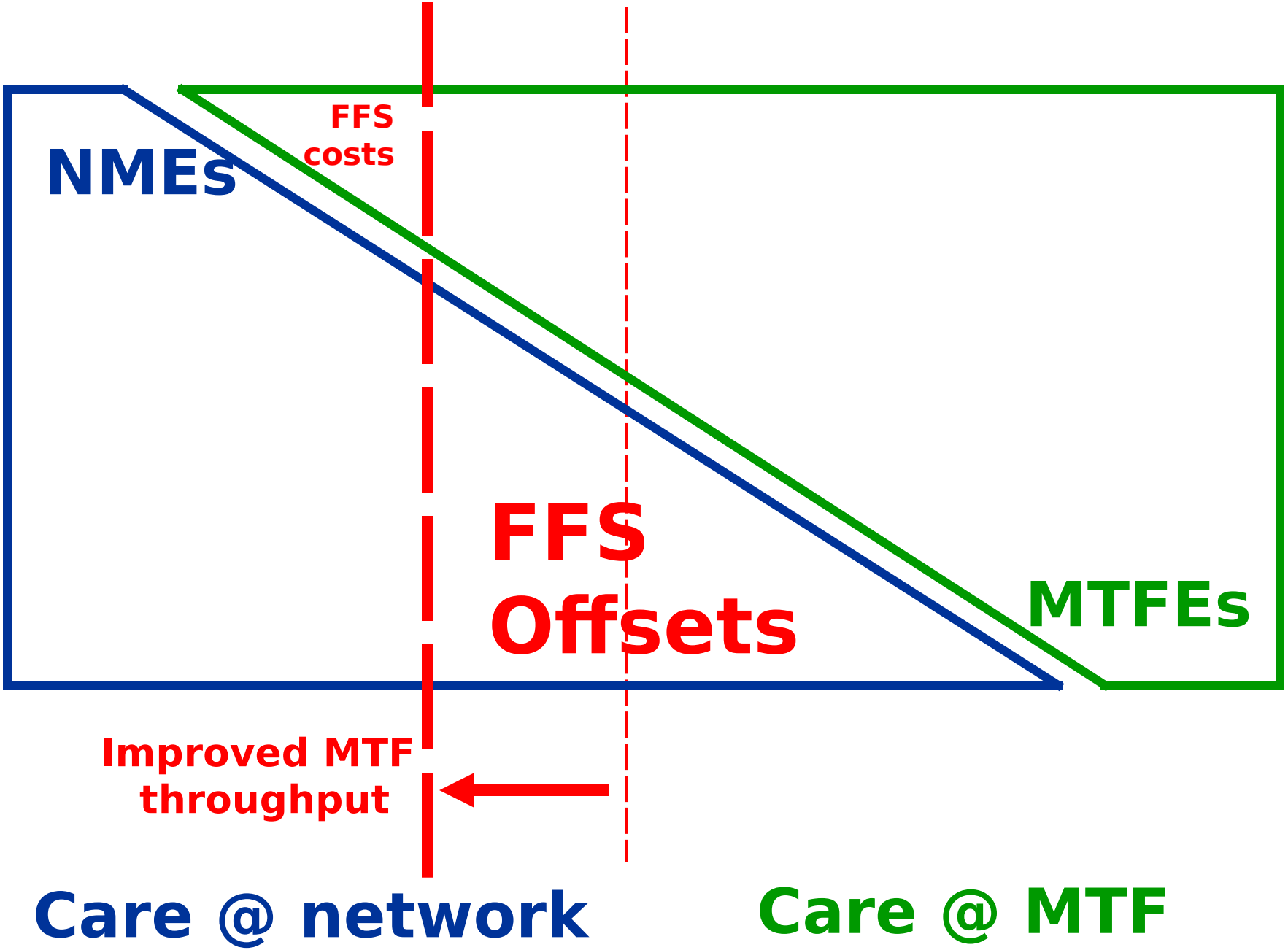
MTF


NMEs
MTFEs
Care @ network
Care @ MTF


NMEs
MTFEs
@
network
NMEs
@
MTF
MTFEs
Care @ network
Care @ MTF


NMEs
FFS
costs
FFS
Offsets
MTFEs
Care @ network
Care @ MTF


NMEs
FFS
costs
FFS
Offsets
MTFEs
+
–
MTF capacity
Care @ network
Care @ MTF

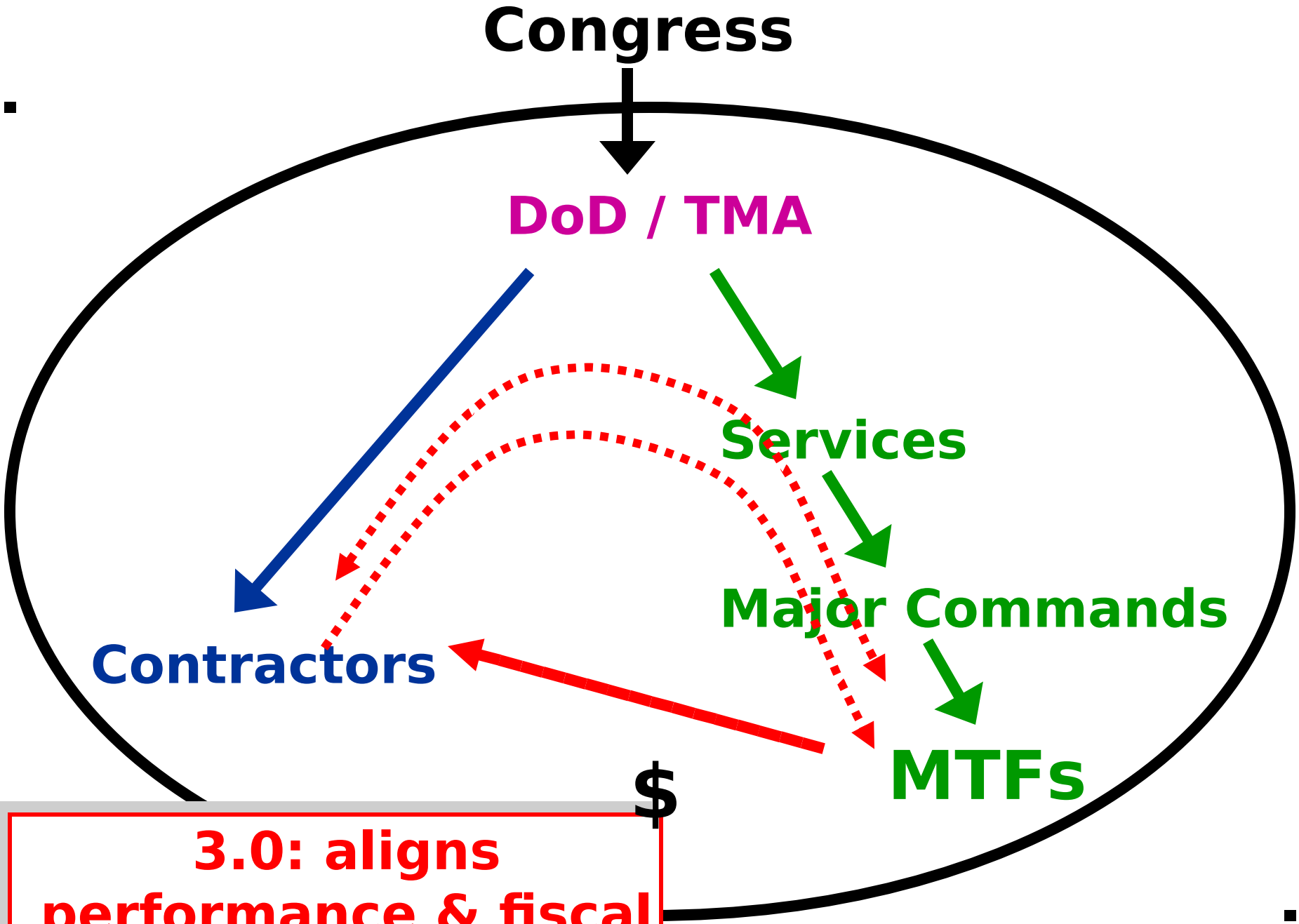

FFS
costs
NMEs
FFS
Offsets
MTFEs
Improved MTF
throughput
Care @ network
Care @ MTF

Network Care for MTF Enrollees

- MTF pays actual claims costs w/same MCSC discounts
- No commitment on quantity of care to be purchased
- MTFs will routinely use network providers except when:
  - Clearly in the Government's best interests
  - Clearly in the beneficiary's best interest

MTF care for Non-MTF Enrollees (NMEs)

- No gov’t commitment or estimate, on volume or value
- MCSC bids prices as % of:
  - CHAMPUS DRG for Inpatient Institutional
  - CMAC for Professional
  - DAPA / Actual Acquisition Cost (AAC) for Pharmacy (% premium)
- % Discount / Premium can vary by “Product Lines”:
  - Major Diagnostic Category (MDC) for Inpatient Institutional
  - MEPRS activity code for Professional
- Value of MTF care provided offsets monthly at-risk pmt.
- Offset amount adjusted per external audit results



3.0: aligns performance & fiscal

Resource Sharing: Basics

- No up-front savings in bid
- MCSC proposes, or MTF requests, RS assets
- MCSC negotiates requirements & price w/ MTF
- Care provided to both MTF and Non-MTF Enrollees
- MCSC offsets for all MTF care to NMEs will be reduced by price of asset
- MTFs free to consider all resource options

Resource Sharing: Incentives for the MTF

- Reduction in network care for MTF enrollees
- Additional Obligation Authority (OA) from provision of care to NMEs
- GME enhancement
- Reduced co-pays for beneficiaries
- Enhanced convenience & quality for beneficiaries

Resource Sharing:
Incentives for the MCSC

- Negotiated profit
- Beneficiary satisfaction … award fee
- MTF Commander satisfaction … award fee

Admin Support Services:

Pricing Structure

- Price redeterminations:
  - Only for changes in region-wide population > 5%
  - % Price Adj = (% pop'n change - 5 % threshold)

Reconciliation of Monthly Payments for Healthcare

- "At-Risk" health care payments to MCSC:
  - Contractor's at-risk (redetermined) price
  - **Minus** the cost of MTF care provided to NMEs
  - **Minus** the cost of NMOP provided to NMEs
  - **Plus** the negotiated price of Resource Sharing assets
  - **Minus** MTF enrollment revenue
- Payments for care to MTF enrollees:
  - Cost of MTF-enrollee civilian care paid by MTFs via invoices
- Payments by MTFs for Resource Support Assets
- TMA pass-through payments

Required Changes in MTF Business Practice

- Accurate 7 Character MTF CPT Coding

- Accurate/Present Records

Summary:

- **Clarifies risk by sub-population**
- **Simplifies risk with continuous 50/50 split for NMEs**
- **More direct MTF and MCSC incentives**
- **Eliminates O-factor, workload projections, other complexities of BPA**
- **Real-time balance of payments**

3.0 Finance

Questions

Comments

DEPARTMENT OF DEFENSE

TRICARE

Your Military Health Benefit

PRIME
EXTRA
STANDARD

TRICARE
www.tricare.osd.mil

World Class Health Care
for the World's Best Military